

HAMBURG COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Net Assets	H 20
Statement of Cash Flows	I 21
Notes to Basic Financial Statements	22-31
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	32
Notes to Required Supplementary Information - Budgetary Reporting	33
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 35
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 36
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4 37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	38-39
Schedule of Findings	40-43

Hamburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Bill Green	President	2007
Greg Warden	Vice President	2007
Pat Carlock	Board Member	2006
Mary Ann Gregg	Board Member	2008
Charles Dovel	Board Member	2008
Board of Education (After September 2006 Election)		
Bill Green	President	2007
Greg Warden	Vice President	2007
Hilary Christiansen	Board Member	2009
Mary Ann Gregg	Board Member	2008
Charles Dovel	Board Member	2008
School Officials		
Dr. Paul Sellon	Superintendent	2007
Carrie Stoner	Board Secretary/ District Treasurer (Resigned)	2007
Sue Ann Smith	Board Secretary/ District Treasurer (Appointed)	2007
Gruhn Law Firm	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Hamburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hamburg Community School District, Hamburg, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hamburg Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2008 on our consideration of the Hamburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hamburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

January 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hamburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,562,777 in fiscal 2006 to \$2,647,377 in fiscal 2007, while General Fund expenditures increased from \$2,758,778 in fiscal 2006 to \$2,822,988 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$287,094 in fiscal 2006 to a balance of \$111,483 in fiscal 2007, a 61.17% decrease from the prior year.
- The increase in General Fund revenues was attributable to the District receiving more in local tax revenue as well as increased state grant revenue during fiscal year 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Hamburg Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hamburg Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hamburg Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Hamburg Community School District Annual Financial Report

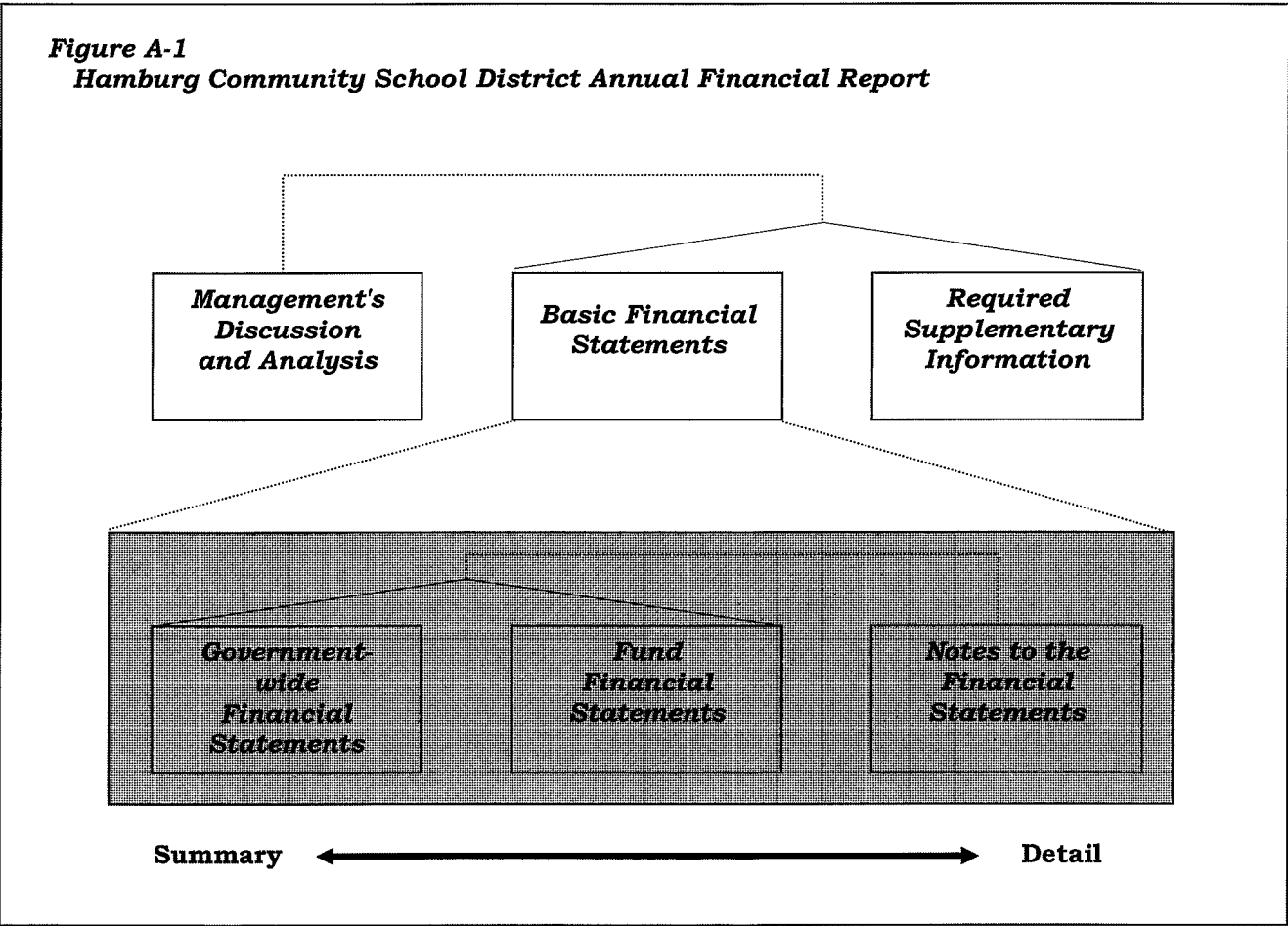


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Capital Projects Fund and Special Revenue Funds.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 3,033,413	3,008,504	134,798	75,588	3,168,211	3,084,092	2.73%
Capital assets	1,018,260	1,029,391	20,430	18,930	1,038,690	1,048,321	-0.92%
Total assets	4,051,673	4,037,895	155,228	94,518	4,206,901	4,132,413	1.80%
Long-term obligations	73,620	147,826	0	0	73,620	147,826	-50.20%
Other liabilities	2,020,036	2,112,204	81,429	34,037	2,101,465	2,146,241	-2.09%
Total liabilities	2,093,656	2,260,030	81,429	34,037	2,175,085	2,294,067	-5.19%
Net assets:							
Invested in capital assets, net of related debt	1,018,260	1,029,391	20,430	18,930	1,038,690	1,048,321	-0.92%
Restricted	800,781	538,530	0	0	800,781	538,530	48.70%
Unrestricted	138,976	209,944	53,369	41,551	192,345	251,495	-23.52%
Total net assets	\$ 1,958,017	1,777,865	73,799	60,481	2,031,816	1,838,346	10.52%

The District's combined net assets increased by 10.52%, or \$193,470, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$262,251, or 48.70% over the prior year. The increase was primarily a result of the District's increase in the Physical Plant and Equipment Levy Fund and Capital Projects Fund balances.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$59,150, or 23.52%. This decrease in unrestricted net assets was primarily a result the District spending a portion of the Bunker Inheritance Donation of \$22,162, with a remaining balance of \$27,361 at June 30, 2007 as well as the District using carryover balance to meet financial obligations.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 149,365	152,261	59,762	43,267	209,127	195,528	6.96%
Operating grants and contributions and restricted interest	403,927	316,140	102,163	97,609	506,090	413,749	22.32%
General revenues:							
Property tax	1,221,564	1,236,063	0	0	1,221,564	1,236,063	-1.17%
Local option sales and services tax	209,285	165,556	0	0	209,285	165,556	26.41%
Unrestricted state grants	1,185,549	1,073,700	0	0	1,185,549	1,073,700	10.42%
Other	70,039	58,926	228	191	70,267	59,117	18.86%
Total revenues	3,239,729	3,002,646	162,153	141,067	3,401,882	3,143,713	8.21%
Program expenses:							
Governmental activities:							
Instructional	1,914,280	1,835,357	0	0	1,914,280	1,835,357	4.30%
Support services	956,531	955,276	0	8,423	956,531	963,699	-0.74%
Non-instructional programs	458	0	148,835	152,395	149,293	152,395	-2.04%
Other expenditures	188,308	174,818	0	0	188,308	174,818	7.72%
Total expenses	3,059,577	2,965,451	148,835	160,818	3,208,412	3,126,269	2.63%
Changes in net assets before capital contributions	180,152	37,195	13,318	(19,751)	193,470	17,444	1009.09%
Capital contributions	0	0	0	7,063	0	7,063	100.00%
Changes in net assets	180,152	37,195	13,318	(12,688)	193,470	24,507	689.45%
Beginning net assets	1,777,865	1,740,670	60,481	73,169	1,838,346	1,813,839	1.35%
Ending net assets	\$ 1,958,017	1,777,865	73,799	60,481	2,031,816	1,838,346	10.52%

In fiscal 2007, property tax and unrestricted state grants account for 74.30% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.86% of the revenue from business type activities.

The District's total revenues were approximately \$3.4 million of which \$3.2 million was for governmental activities and less than \$0.2 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced an 8.21% increase in revenues and a 2.63% increase in expenses. The increase in expenses was a result of the increases in the negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$3,239,729 and expenses were \$3,059,577.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5

Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 1,914,280	1,835,357	4.30%	1,457,125	1,458,745	-0.11%
Support services	956,531	955,276	0.13%	956,531	955,276	0.13%
Non-instructional	458	0	100.00%	458	0	100.00%
Other expenses	188,308	174,818	7.72%	92,171	83,029	11.01%
Totals	\$ 3,059,577	2,965,451	3.17%	2,506,285	2,497,050	0.37%

- The cost financed by users of the District's programs was \$149,365.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$403,927.
- The net cost of governmental activities was financed with \$1,221,564 in property tax, \$209,285 in local option sales and services tax, \$1,185,549 in state foundation aid, \$41,769 in interest income and \$28,270 as miscellaneous income.

Business-Type Activities

Revenues of the District's business-type activities were \$162,153 and expenses were \$148,835. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Hamburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$973,348, above last year's ending fund balances of \$896,300. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to controlled spending in the Physical Plant and Equipment Levy Fund and Capital Projects Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$287,094 to \$111,483 is the product of many factors:
 - Increases in state aid, federal grants and tax levied during the year were offset by increases in General Fund expenditures during the year.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures. The District also spent down the balance restricted by the board from the Bunker Donation.
 - The increase in revenues was more than offset by the increase in expenditures which resulted in the General Fund having a net decrease of \$175,611.
- The Physical Plant and Equipment Levy Fund balance increased from \$196,023 in fiscal 2006 to \$246,538 in fiscal 2007. This is to the increase in revenues more than offsetting the increase in expenditures as compared to fiscal 2006.

- The Capital Projects Fund balance increased from \$217,901 in fiscal 2006 to \$419,020 in fiscal 2007. This is due to limited expenditures from the fund during fiscal 2007.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$60,481 at June 30, 2006 to \$73,799 at June 30, 2007, representing an increase of 22.02%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$209,214 less than budgeted revenues, a variance of 5.86%. The most significant variance resulted from the District receiving less in federal source revenues than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$1,038,690, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$117,071.

The original cost of the District's capital assets was \$3.40 million. Governmental funds account for \$3.34 million with the remainder of \$0.06 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$200,867 at June 30, 2007, compared to \$158,419 reported at June 30, 2006. This increase resulted from acquisition of new machinery and equipment during fiscal 2007.

Figure A-6

Capital Assets, Net of Depreciation							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 42,707	42,707	0	0	42,707	42,707	0.00%
Buildings	721,090	766,740	0	0	721,090	766,740	-6.33%
Land improvements	74,026	80,455	0	0	74,026	80,455	-8.68%
Machinery and equipment	180,437	139,489	20,430	18,930	200,867	158,419	21.13%
Total	\$ 1,018,260	1,029,391	20,430	18,930	1,038,690	1,048,321	-0.93%

Long-Term Debt

At June 30, 2007, the District had total outstanding Early Retirement payable from the Special Revenue – Management Fund of \$73,620. This represents a decrease of 50.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
Early retirement	\$ 73,620	147,826	-50.2%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue Ann Smith, Board Secretary, Hamburg Community School District, 105 E Street, Hamburg, Iowa, 51640.

BASIC FINANCIAL STATEMENTS

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 433,152	0	433,152
Other	1,118,718	126,450	1,245,168
Receivables:			
Property tax:			
Delinquent	15,103	0	15,103
Succeeding year	1,254,329	0	1,254,329
Income surtax	40,029	0	40,029
Interfund	81,080	0	81,080
Accrued ISCAP interest(Note 4)	13,868	0	13,868
Accounts	1,912	7,049	8,961
Due from other governments	75,222	0	75,222
Inventories	0	1,299	1,299
Capital assets, net of accumulated depreciation(Note 5)	1,018,260	20,430	1,038,690
TOTAL ASSETS	4,051,673	155,228	4,206,901
LIABILITIES			
Interfund payable	0	81,080	81,080
Accounts payable	1,759	0	1,759
Salaries and benefits payable	296,788	349	297,137
ISCAP warrants payable(Note 4)	434,000	0	434,000
ISCAP interest payable(Note 4)	11,474	0	11,474
ISCAP unamortized premiums payable	2,520	0	2,520
Deferred revenue:			
Succeeding year property tax	1,254,329	0	1,254,329
Other	19,166	0	19,166
Long-term liabilities(Note 6):			
Portion due within one year:			
Early retirement payable	21,380	0	21,380
Portion due after one year:			
Early retirement payable	52,240	0	52,240
TOTAL LIABILITIES	2,093,656	81,429	2,175,085
NET ASSETS			
Investment in capital assets, net of related debt	1,018,260	20,430	1,038,690
Restricted for:			
Talented and gifted	5,210	0	5,210
Salary improvement program	2,639	0	2,639
Additional teacher contract day	79	0	79
Professional development	4,041	0	4,041
Market factor	567	0	567
Management levy	21,091	0	21,091
Capital projects	419,020	0	419,020
Physical plant and equipment levy	246,538	0	246,538
Other special revenue purposes	101,596	0	101,596
Unrestricted	138,976	53,369	192,345
TOTAL NET ASSETS	\$ 1,958,017	73,799	2,031,816

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,276,198	74,568	307,790	(893,840)	0
Special instruction	306,584	3,845	0	(302,739)	0
Other instruction	331,498	70,952	0	(260,546)	0
	1,914,280	149,365	307,790	(1,457,125)	0
Support services:					
Student services	58,457	0	0	(58,457)	0
Instructional staff services	69,162	0	0	(69,162)	0
Administration services	448,815	0	0	(448,815)	0
Operation and maintenance of plant services	281,219	0	0	(281,219)	0
Transportation services	98,878	0	0	(98,878)	0
	956,531	0	0	(956,531)	0
Non-instructional programs:					
Operations of non-instructional programs	458	0	0	(458)	0
Other expenditures:					
Facilities acquisitions	35,899	0	0	(35,899)	0
AEA flowthrough	96,137	0	96,137	0	0
Depreciation(unallocated)*	56,272	0	0	(56,272)	0
	188,308	0	96,137	(92,171)	0
Total governmental activities	3,059,577	149,365	403,927	(2,506,285)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	148,835	59,762	102,163	0	13,090
Total business-type activities	148,835	59,762	102,163	0	13,090
Total	\$ 3,208,412	209,127	506,090	(2,506,285)	13,090
General Revenues:					
Property tax levied for:					
General purposes				\$ 1,071,154	0
Capital outlay				150,410	0
Local option sales and services tax				209,285	0
Unrestricted state grants				1,185,549	0
Unrestricted investment earnings				41,769	228
Miscellaneous				28,270	0
Total general revenues				2,686,437	228
Changes in net assets				180,152	13,318
Net assets beginning of year				1,777,865	60,481
Net assets end of year				\$ 1,958,017	73,799

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 433,152	0	0	0	433,152
Other	297,973	244,749	381,211	194,785	1,118,718
Receivables:					
Property tax:					
Delinquent	11,979	1,789	0	1,335	15,103
Succeeding year	998,032	156,297	0	100,000	1,254,329
Income surtax	40,029	0	0	0	40,029
Interfund	81,080	0	23,594	0	104,674
Accrued ISCAP interest(Note 4)	13,868	0	0	0	13,868
Accounts	81	0	0	1,831	1,912
Due from other governments	61,007	0	14,215	0	75,222
TOTAL ASSETS	\$ 1,937,201	402,835	419,020	297,951	3,057,007
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 23,594	0	0	0	23,594
Accounts payable	115	0	0	1,644	1,759
Salaries and benefits payable	296,788	0	0	0	296,788
ISCAP warrants payable(Note 4)	434,000	0	0	0	434,000
ISCAP interest payable(Note 4)	11,474	0	0	0	11,474
ISCAP unamortized premiums payable	2,520	0	0	0	2,520
Deferred revenue:					
Succeeding year property tax	998,032	156,297	0	100,000	1,254,329
Income surtax	40,029	0	0	0	40,029
Other	19,166	0	0	0	19,166
Total liabilities	1,825,718	156,297	0	101,644	2,064,493
Fund balances:					
Reserved for:					
Talented and gifted	5,210	0	0	0	5,210
Salary improvement program	2,639	0	0	0	2,639
Additional teacher contract day	79	0	0	0	79
Professional development	4,041	0	0	0	4,041
Market factor	567	0	0	0	567
Unreserved:					
Designated:					
Designated for special purposes by the board(Bunker Donation)	27,361	0	0	0	27,361
Undesignated:					
General	71,586	0	0	0	71,586
Physical plant and equipment levy	0	246,538	0	0	246,538
Capital projects	0	0	419,020	0	419,020
Management levy	0	0	0	94,711	94,711
Other special revenue purposes	0	0	0	101,596	101,596
Total fund balances	111,483	246,538	419,020	196,307	973,348
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,937,201	402,835	419,020	297,951	3,037,841

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 973,348
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,018,260
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	40,029
Long-term liabilities, including early retirement payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(73,620)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 1,958,017</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 932,056	150,410	209,285	99,069	1,390,820
Tuition	75,449	0	0	0	75,449
Other	50,881	21,078	80	72,401	144,440
State sources	1,438,664	0	0	0	1,438,664
Federal sources	150,327	0	0	0	150,327
Total revenues	2,647,377	171,488	209,365	171,470	3,199,700
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,283,510	0	0	30,755	1,314,265
Special instruction	303,217	0	0	0	303,217
Other instruction	248,785	0	0	77,733	326,518
	1,835,512	0	0	108,488	1,944,000
Support services:					
Student services	58,196	0	0	0	58,196
Instructional staff services	81,216	0	0	0	81,216
Administration services	435,259	0	0	9,448	444,707
Operation and maintenance of plant services	218,203	36,127	0	52,509	306,839
Transportation services	98,007	53,000	0	0	151,007
	890,881	89,127	0	61,957	1,041,965
Non-instructional programs:	458	0	0	0	458
Other expenditures:					
Facilities acquisitions	0	31,846	8,246	0	40,092
AEA flowthrough	96,137	0	0	0	96,137
	96,137	31,846	8,246	0	136,229
Total expenditures	2,822,988	120,973	8,246	170,445	3,122,652
Net change in fund balances	(175,611)	50,515	201,119	1,025	77,048
Fund balance beginning of year	287,094	196,023	217,901	195,282	896,300
Fund balance end of year	\$ 111,483	246,538	419,020	196,307	973,348

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 77,048

*Amounts reported for governmental activities in the
statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 48,387	
Depreciation expense	(59,518)	(11,131)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 40,029

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement payable		<u>74,206</u>
--------------------------	--	---------------

Changes in net assets of governmental activities (page 14) \$ 180,152

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 126,450
Receivables:	
Accounts	7,049
Inventories	1,299
Capital assets, net of accumulated depreciation(Note 5)	20,430
TOTAL ASSETS	<u>155,228</u>
LIABILITIES	
Interfund payable	81,080
Salaries and benefits payable	349
TOTAL LIABILITIES	<u>81,429</u>
NET ASSETS	
Investment in capital assets, net of related debt	20,430
Unrestricted	53,369
TOTAL NET ASSETS	<u><u>\$ 73,799</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 59,762
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	56,046
Benefits	7,826
Services	1,261
Supplies	80,649
Depreciation	3,053
TOTAL OPERATING EXPENSES	<u>148,835</u>
OPERATING LOSS	<u>(89,073)</u>
NON-OPERATING REVENUES:	
State sources	2,207
Federal sources	99,956
Interest income	228
TOTAL NON-OPERATING REVENUES	<u>102,391</u>
Change in net assets	13,318
Net assets beginning of year	<u>60,481</u>
Net assets end of year	<u>\$ 73,799</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 54,499
Cash received from miscellaneous sources	305
Cash payments to employees for services	(63,887)
Cash payments to suppliers for goods or services	(74,202)
Net cash used in operating activities	<u>(83,285)</u>
Cash flows from non-capital financing activities:	
Borrowings from General Fund	81,080
State grants received	2,207
Federal grants received	90,613
Net cash provided by non-capital financing activities	<u>173,900</u>
Cash flows from capital financing activities:	
Acquisition of assets	<u>(4,553)</u>
Cash flows from investing activities:	
Interest on investments	<u>228</u>
Net increase in cash and cash equivalents	86,290
Cash and cash equivalents at beginning of year	<u>40,160</u>
Cash and cash equivalents at end of year	<u>\$ 126,450</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (89,073)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,343
Depreciation	3,053
Increase in inventories	(295)
Increase in accounts receivable	(4,958)
Decrease in accounts payable	(1,340)
Decrease in salaries and benefits payable	(15)
Net cash used in operating activities	<u>\$ (83,285)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 126,450</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$9,343.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Hamburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Hamburg, Iowa, and the predominate agricultural territory in Fremont County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Hamburg Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Hamburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fremont County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is utilized to account for resources used to acquire equipment and capital facility improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated for Special Purposes by the Board - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balance is the balance remaining from the Bunker Inheritance Donation of \$27,361.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

(3) **Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects	General Fund	\$ 23,594
General	School Nutrition	81,080
Total		<u>\$ 104,674</u>

(4) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	10,029	0	8,211
2006-07B	1/26/07	1/25/08	166,574	3,759	167,000	3,195
2007-08A	6/27/07	6/27/08	266,578	80	267,000	68
Total			<u>\$ 433,152</u>	<u>13,868</u>	<u>434,000</u>	<u>11,474</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2007.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2006-07A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 42,707	0	0	42,707
Total capital assets not being depreciated	42,707	0	0	42,707
Capital assets being depreciated:				
Buildings	2,010,966	4,193	0	2,015,159
Land improvements	255,991	0	0	255,991
Machinery and equipment	985,472	98,694	54,500	1,029,666
Total capital assets being depreciated	3,252,429	102,887	54,500	3,300,816
Less accumulated depreciation for:				
Buildings	1,244,226	49,843	0	1,294,069
Land improvements	175,536	6,429	0	181,965
Machinery and equipment	845,983	57,746	54,500	849,229
Total accumulated depreciation	2,265,745	114,018	54,500	2,325,263
Total capital assets being depreciated, net	986,684	(11,131)	0	975,553
Governmental activities capital assets, net	\$ 1,029,391	(11,131)	0	1,018,260
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 52,939	4,553	0	57,492
Less accumulated depreciation	34,009	3,053	0	37,062
Business-type activities capital assets, net	\$ 18,930	1,500	0	20,430

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 26,491
Special	3,367
Other	4,980
Support services:	
Student	261
Instructional staff	666
Administration	6,992
Operation and maintenance of plant	518
Transportation	14,471
	57,746
Unallocated depreciation	56,272
Total governmental activities depreciation expense	\$ 114,018
Business-type activities:	
Food services	\$ 3,053

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 147,826	0	74,206	73,620	21,380

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will pay health insurance benefits until the retiree reaches age sixty-five. A liability has been recorded in the Statement of Net Assets for government-wide activities for these early retirement benefits. Early retirement benefits paid during the year ended June 30, 2007, totaled \$74,206.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$92,951, \$89,989 and \$84,556 respectively, equal to the required contributions for each year.

(8) Risk Management

The Hamburg Community School District was a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$22,542.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. For fiscal 2008, the District has cancelled coverage with ISEBA.

Hamburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$96,137 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HAMBURG COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,610,709	59,990	1,670,699	1,791,050	1,791,050	(120,351)
State sources	1,438,664	2,207	1,440,871	1,457,017	1,457,017	(16,146)
Federal sources	150,327	99,956	250,283	323,000	323,000	(72,717)
Total revenues	3,199,700	162,153	3,361,853	3,571,067	3,571,067	(209,214)
Expenditures:						
Instruction	1,944,000	0	1,944,000	2,375,529	2,375,529	431,529
Support services	1,041,965	0	1,041,965	1,260,650	1,260,650	218,685
Non-instructional programs	458	148,835	149,293	220,000	220,000	70,707
Other expenditures	136,229	0	136,229	491,470	491,470	355,241
Total expenditures	3,122,652	148,835	3,271,487	4,347,649	4,347,649	1,076,162
Excess (deficiency) of revenues over (under) expenditures	77,048	13,318	90,366	(776,582)	(776,582)	866,948
Balance beginning of year	896,300	60,481	956,781	1,080,280	1,080,280	(123,499)
Balance end of year	\$ 973,348	73,799	1,047,147	303,698	303,698	743,449

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

HAMBURG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Expendable Trust	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 95,020	34,171	65,594	194,785
Receivables:				
Property tax				
Delinquent	1,335	0	0	1,335
Succeeding year	100,000	0	0	100,000
Accounts	0	1,831	0	1,831
TOTAL ASSETS	\$ 196,355	36,002	65,594	297,951
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,644	0	0	1,644
Deferred revenue:				
Succeeding year property tax	100,000	0	0	100,000
TOTAL LIABILITIES	101,644	0	0	101,644
UNRESERVED FUND BALANCES	94,711	36,002	65,594	196,307
TOTAL LIABILITIES AND FUND BALANCES	\$ 196,355	36,002	65,594	297,951

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds			Total Nonmajor Special Revenue Funds
	Manage- ment Levy	Student Activity	Expendable Trust	
REVENUES:				
Local sources:				
Local tax	\$ 99,069	0	0	99,069
Other	0	71,056	1,345	72,401
TOTAL REVENUES	99,069	71,056	1,345	171,470
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	25,355	0	5,400	30,755
Other instruction	0	77,733	0	77,733
Support services:				
Administration services	9,448	0	0	9,448
Operation and maintenance of plant services	51,723	786	0	52,509
TOTAL EXPENDITURES	86,526	78,519	5,400	170,445
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,543	(7,463)	(4,055)	1,025
FUND BALANCE BEGINNING OF YEAR	82,168	43,465	69,649	195,282
FUND BALANCE END OF YEAR	\$ 94,711	36,002	65,594	196,307

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ (1,797)	111	0	(1,686)
Drama	661	2,697	1,820	1,538
Chorus	689	557	983	263
Band	1,441	1,071	529	1,983
HS Athletics	12,284	22,891	32,358	2,817
HS Athletics Resale	618	4,779	3,869	1,528
JH Athletics	(787)	2,558	3,565	(1,794)
HS Cheerleading	4,185	294	4,894	(415)
JH Cheerleading	0	0	28	(28)
Art	68	0	0	68
Class of 2002	0	0	2,438	(2,438)
Class of 2003	(660)	0	148	(808)
Class of 2004	600	0	0	600
Class of 2005	1,297	0	38	1,259
Class of 2006	169	40	0	209
Class of 2007	6,854	1,212	5,405	2,661
Class of 2008	2,241	19,412	8,726	12,927
Class of 2009	1,095	991	120	1,966
Class of 2010	936	630	0	1,566
Class of 2011	182	353	624	(89)
Class of 2012	0	288	0	288
Health Careers	57	0	0	57
Student Council	(21)	332	638	(327)
Yearbook	2,445	6,342	5,460	3,327
Betterment	2,644	1,701	2,813	1,532
Elementary Activity	4,685	2,653	3,046	4,292
Elementary Music Activity	2,974	265	40	3,199
Elementary Yearbook	441	879	977	343
Sally Ashler Memorial	164	1,000	0	1,164
Total	\$ 43,465	71,056	78,519	36,002

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	1,390,820	1,435,744	1,444,051	1,304,312
Tuition		75,449	75,210	85,975	61,534
Other		144,440	140,650	237,461	141,160
State sources		1,438,664	1,285,828	1,293,041	1,306,026
Federal sources		150,327	99,339	244,371	194,325
Total	\$	3,199,700	3,036,771	3,304,899	3,007,357
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,314,265	1,223,556	1,106,577	1,169,307
Special instruction		303,217	329,945	423,240	341,609
Other instruction		326,518	335,126	251,490	162,934
Support services:					
Student services		58,196	80,629	85,886	93,353
Instructional staff services		81,216	47,723	42,790	40,715
Administration services		444,707	440,965	416,633	404,342
Operation and maintenance of plant services		306,839	282,213	335,478	236,005
Transportation services		151,007	100,356	67,945	84,713
Central support services		0	0	4,145	7,824
Non-instructional programs		458	0	7,800	7,750
Other expenditures:					
Facilities acquisitions		40,092	100,016	259,022	422,899
AEA flow-through		96,137	91,789	91,840	94,675
Total	\$	3,122,652	3,032,318	3,092,846	3,066,126

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Hamburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hamburg Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 25, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hamburg Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Hamburg Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hamburg Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hamburg Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Hamburg Community School District's financial statements that is more than inconsequential will not be prevented or detected by Hamburg Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Hamburg Community School District's internal control.

Members American Institute & Iowa Society of Certified Public Accountants

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hamburg Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Hamburg Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hamburg Community School District and other parties to whom Hamburg Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hamburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 25, 2008

HAMBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - New policies and procedures were set up to strengthen the internal control structure of the school accounting to include cash receipts listing, bank deposits and post of cash receipts to the cash journal. Procedures were implemented in September 2006 to restructure how monies would be received, documented, deposited and posted. All monies received for school lunches, extra-curricular activity (including, but not limited to, athletic functions, school plays, etc.) book fees and tuition fees are collected by the Elementary and Secondary school secretaries. The school secretaries receipt and deposit the money. Deposit ledger and deposit receipts are then provided to the Business Manager to post to the cash journal. This procedure has strengthened the internal controls of the school accounting system.

Conclusion - Response accepted.

- I-B-07 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage and employee travel compensation. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements. In addition, the District should review procedures in place to ensure the proper detailed documentation will be available with reimbursements to employees.

Response - Reimbursement of credit card payments will require a detailed statement. This process has been implemented.

Conclusion - Response accepted.

I-C-07 Graduated Class Accounts - We noted during our audit that the District has several past graduated class accounts in Student Activity Fund.

Recommendation - The old activity class accounts should be closed in the Student Activity Fund and the remaining funds redistributed.

Response - Old class accounts will be closed and monies redistributed upon recommendation of the Superintendent by the end off the fiscal school year.

Conclusion - Response accepted.

I-D-07 Student Activity Fund - We noted during our audit that the Student Activity fund included a Betterment account.

Recommendation - The revenues and expenditures made from the Betterment account appear to be more appropriately accounted for in an Agency fund. The District should review the transactions in this account and make the necessary transfers.

Response - We will review the transactions and make necessary transfers in accordance with the origination of the monies. We will set up an Agency Fund and no longer use the Betterment Fund.

Conclusion - Response accepted.

I-E-07 Insurance Dividend - We noted during our audit that the District received an insurance dividend from EMC for insurance coverage. The District recorded the receipt of the dividend in the Physical Plant and Equipment Levy Fund (PPEL) instead of the Management Levy Fund.

Recommendation - Revenues should be matched to where the expenditure occurred; therefore, because the insurance premium was paid from the Management Levy Fund, the subsequent receipt of the insurance dividend should have been recorded in the Management Levy Fund. The District should transfer \$4,735.55 from the PPEL Fund to the Management Fund.

Response - We transferred \$4,753.55 from the PPEL Fund to the Management Fund.

Conclusion - Response accepted.

HAMBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - Minutes are now consistently published within the two week timeframe as required by 279.35 of the Code of Iowa.

Conclusion - Response accepted.

- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have contacted Great Western Bank and they are providing us images of both the front and back of District checks.

Conclusion - Response accepted.

II-K-07 Physical Plant and Equipment Levy (PPEL) and Local Option Sales and Service Tax Expenditures - According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. We noted during our audit that the District purchased fifteen computers from the PPEL Fund for \$4,875, contracted mowing for District grounds for \$5,563 and miscellaneous computer hardware for \$1,416. These expenditures, which are less than \$500 per single unit, are inappropriate from the PPEL Fund.

According to the District's revenue purpose statement, local option sales and service tax money can be spent for PPEL type expenditures, thus falling within the same \$500 per unit of equipment restriction. From the Capital Projects Fund, we noted a used chair purchase of \$276 and permanent shelving purchase of \$982. These expenditures, which are less than \$500 per single unit, are inappropriate from the Capital Projects Fund.

Recommendation - The District should review the Code of Iowa with regard to allowable expenditures from the PPEL Fund to avoid non compliance. The District should review revenue purpose statements in regards to the use of local option sales and service tax money.

The District should make a corrective transfer to the PPEL Fund from the General Fund in the amount of \$11,854.

The District should make a corrective transfer to the Capital Projects Fund from the General Fund in the amount of \$1,258.

Response - Corrective transfers were made per auditor's recommendations.

Conclusion - Response accepted.

II-L-07 Financial Condition - The District has eight deficit accounts totaling \$7,585 in the Special Revenue Fund, Student Activity Fund.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - We will work with sponsors for the negative accounts and work to get these accounts positive at the end of the fiscal year.

Conclusion - Response accepted.